

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

| | | | |
|--|-------------------------|---|-------------------|
| Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Unit Name South Branch Township | County Wexford |
| Fiscal Year End 6-30-06 | Opinion Date 9-15-06 | Date Audit Report Submitted to State November 27, 2006 | |

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☒ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

| | | | |
|--|-------------------------------------|--|-------------|
| We have enclosed the following: | Enclosed | Not Required (enter a brief justification) | |
| Financial Statements | <input checked="" type="checkbox"/> | | |
| The letter of Comments and Recommendations | <input checked="" type="checkbox"/> | | |
| Other (Describe) | <input type="checkbox"/> | | |
| Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C. | | Telephone Number 231-775-9789 | |
| Street Address 134 West Harris Street | | City Cadillac | State MI |
| Zip 49601 | | License Number 1101023146 | |
| Authorizing CPA Signature  | | Printed Name Michael D. Cool | |

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY

CADILLAC, MICHIGAN

JUNE 30, 2006

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

JUNE 30, 2006

TABLE OF CONTENTS

| | <u>PAGES</u> |
|--|--------------|
| Independent Auditors' Report | i-ii |
| Management's Discussion and Analysis | iii-ix |
| Basic Financial Statements | |
| Government-Wide Financial Statements | |
| Statement of Net Assets | 1 |
| Statement of Activities | 2 |
| Fund Financial Statements | |
| Governmental Funds | |
| Balance Sheet | 3 |
| Reconciliation of the Balance Sheet to the Statement of Net Assets | 4 |
| Statement of Revenues, Expenditures and Changes in Fund Balance | 5 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities | 6 |
| Fiduciary Funds | |
| Statement of Fiduciary Net Assets | 7 |
| Notes to Financial Statements | 8-19 |
| Required Supplementary Information | |
| Budgetary Comparison Schedule - Major Governmental Funds | 20-21 |
| Individual Fund Financial Statements | |
| Major Governmental Funds | |
| <u>General Fund</u> | |
| Balance Sheet | 22 |
| Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual | 23 |
| <u>Fire Fund</u> | |
| Balance Sheet | 24 |
| Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual | 25-26 |

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

JUNE 30, 2006

TABLE OF CONTENTS

| | <u>PAGES</u> |
|---|--------------|
| <u>Liquor Law Enforcement Fund</u> | |
| Balance Sheet | 27 |
| Statement of Revenues, Expenditures and Changes in Fund Balance | 28 |
| Agency Fund | |
| <u>Current Tax Collection Fund</u> | |
| Statement of Changes in Assets and Liabilities | 29 |
| Other Information | |
| Statement of 2005 Tax Roll | 30 |
| Letter of Comments and Recommendations | 31-32 |
| Letter of Reportable Conditions | 33 |

134 WEST HARRIS STREET
CADILLAC, MICHIGAN 49601
231-775-9789
FAX: 231-775-9749

M. WAYNE BEATTIE, C.P.A.
1902 - 1990
JACK H. BAIRD, C.P.A.
JERRY L. COTTER, C.P.A.
DALE D. COTTER, C.P.A.

JOHN H. BISHOP, C.P.A.
ROBERT V. BEATTIE, C.P.A.
DOUGLAS P. McMULLEN, C.P.A.
JOHN F. TAYLOR, C.P.A.
STEVEN C. ARENDS, C.P.A.
SCOTT A. HUNTER, C.P.A.
JONATHAN E. DAMHOF, C.P.A.
MICHAEL D. COOL, C.P.A.

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

September 15, 2006

INDEPENDENT AUDITORS' REPORT

To the Township Board
South Branch Township
Wexford County
Cadillac, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of South Branch Township, Wexford County, Cadillac, Michigan, as of and for the year ended June 30, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of South Branch Township, Wexford County, Cadillac, Michigan, as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages iii through ix and budgetary comparison information on pages 20-21 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise South Branch Township, Wexford County, Cadillac, Michigan's basic financial statements. The combining and individual fund financial statements, and other supplementary information are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2006

South Branch Township, a general law township located in Wexford County has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the South Branch Township board's discussion and analysis of the financial results for the fiscal year ended June 30, 2006, along with specific comparative information as required.

Financial Highlights

- ◆ The assets of the Township exceeded its liabilities at the close of the fiscal year by \$388,831. Of this amount, \$43,117 may be used to meet the township's ongoing obligations to citizens and creditors.
- ◆ As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$71,890 a decrease of \$10,650 in comparison with the prior year. About 60.65% is available for spending at the Township's discretion.
- ◆ The Township's total debt increased by \$5,897 during the fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements are comprised of three components. 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements This report includes government-wide statements as required by GASB Statement Number 34. The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The Township's entire assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

The *Statement of Net Assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *Statement of Activities* presents information showing how the Township's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Township's that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2006

Fund Financial Statements

The fund level statements are reported on a modified accrual basis in that only those assets that are “measurable” and “currently available” are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary Funds – Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Township does not maintain any proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

Government-Wide Financial Analysis

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Township’s financial position over time. The Net Assets of the Township are \$388,831 at June 30, 2006, meaning the Township’s assets were greater than its liabilities by this amount. As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. A comparison with the previous fiscal year is presented in order to show the change in Net Assets over the previous fiscal year.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2006

South Branch Township
Net Assets as of June 30,

| | <u>2006</u> | <u>2005</u> |
|---|--------------------------|-------------------------|
| Assets | | |
| Current Assets | \$ 144,997 | \$ 84,698 |
| Non Current Assets | | |
| Capital Assets | 432,368 | 177,138 |
| Less: Accumulated Depreciation | (91,528) | (82,314) |
| Total Non Current Assets | <u>340,840</u> | <u>94,824</u> |
| Total Assets | <u><u>\$ 485,837</u></u> | <u><u>\$179,522</u></u> |
| Liabilities | | |
| Current Liabilities | \$ 87,875 | \$ 6,897 |
| Long-Term Liabilities | <u>9,131</u> | <u>13,412</u> |
| Total Liabilities | <u>97,006</u> | <u>20,309</u> |
| Net Assets | | |
| Invested in Capital Assets, Net of Related Debt | 317,427 | 77,308 |
| Restricted for Specific Purposes | 28,287 | 34,106 |
| Unrestricted | <u>43,117</u> | <u>47,799</u> |
| Total Net Assets | <u>388,831</u> | <u>159,213</u> |
| Total Liabilities and Net Assets | <u><u>\$ 485,837</u></u> | <u><u>\$179,522</u></u> |

The most significant portions of the Township's Net Assets are cash and investment in capital assets (e.g. land, buildings, equipment, and others) less any related debt that is outstanding that the Township used to acquire the asset. The Township has \$43,117 in unrestricted Net Assets. These assets represent resources that are available for appropriation, but are limited by Township policies regarding their use.

At the end of the current fiscal year, the Township is able to report positive balances in all categories of net assets, both for the government as a whole, as well as for its separate governmental activities.

The total net assets of the Township increased by \$229,618 or 144.22% in this fiscal year, which is an indicator that the Township experienced positive financial growth during the year. As a result, the Township ended the fiscal year in better condition than when the year began.

The following table illustrates and summarizes the results of the changes in the net assets for the Township. The condensed information was derived from the government-wide Statement of Activities.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2006

South Branch Township
Change in Net Assets
for the Fiscal Year Ended June 30,

| | <u>2006</u> | <u>2005</u> |
|--|--------------------------|--------------------------|
| <u>Revenues</u> | | |
| Program Revenues | | |
| Charges for Services | \$ 2,483 | \$ 2,555 |
| Operating Grants and Contributions | 3,901 | 1,786 |
| Capital Grants and Contributions | 210,000 | 10,000 |
| General Revenues | | |
| Property Taxes | 70,569 | 65,408 |
| State Shared Revenue | 22,670 | 24,958 |
| Unrestricted Investment Earnings | 2,207 | 1,025 |
| Gain on Sale of Capital Assets | 3,800 | 17,820 |
| Other | <u>6,302</u> | <u>204</u> |
| Total Revenues | <u>321,932</u> | <u>123,756</u> |
| <u>Expenses</u> | | |
| Legislative | 9,525 | 16,066 |
| General Government | 36,358 | 36,130 |
| Public Safety | 40,671 | 37,583 |
| Public Works | 1,955 | 1,615 |
| Other Functions | 3,192 | 13,275 |
| Interest on Long-Term Debt | <u>613</u> | <u>791</u> |
| Total Expenses | <u>92,314</u> | <u>105,460</u> |
| Change in Net Assets | 229,618 | 18,296 |
| <u>NET ASSETS</u> - Beginning of Year | <u>159,213</u> | <u>140,917</u> |
| <u>NET ASSETS</u> - End of Year | <u><u>\$ 388,831</u></u> | <u><u>\$ 159,213</u></u> |

Governmental Activities

During the fiscal year ended June 30, 2006, the Township's net assets increased by \$229,618 or 144.22% in the governmental funds. The majority of this increase is due to capital grants received in the amount of \$210,000. This is true despite the fact that GASB 34 now requires the Township to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2006

A significant part of the revenue for all governmental activities of South Branch Township comes from property taxes. The Township levied a millage for fire protection, in addition to the operating millages, this fiscal year. The Township levied 0.8608 mills for operating purposes, 1.9410 mills for fire protection, and 0.9705 mills for fire equipment.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation.

The Township's governmental activities expenses are dominated by public safety expenses that total 44.06% of total expenses. The Township spent \$40,671 in fiscal year 2006 on public safety expenses. General government represented the next largest expense at \$36,358 followed by legislative at \$9,525. These represent 39.39% and 10.32% respectively. Expenses for salaries and insurance represent a large portion of the public safety expenses at \$10,239. Depreciation expense added another \$10,968.

Business-Type Activities

The Township does not maintain any Business-Type Activities.

Financial Analysis of the Government's Funds

Governmental Activities The focus of South Branch Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirement. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, South Branch Township's governmental funds reported combined ending fund balances of \$71,890. Approximately 60.65% of this total amount (\$30,064) constitutes unreserved fund balance. The remainder of the fund balance is reserved or designated for specific purposes and is therefore not available for new appropriation. For example, the fund balance that is reserved for fire protection must be used for expenditures that relate to fire protection.

General Fund – The General Fund decreased its fund balance by \$2,781 which brings the fund balance to \$50,001. Of the General Fund's fund balance, \$30,064 is unreserved while \$6,398 is reserved for right-of-way maintenance, and \$13,539 is designated for the community building. Property tax revenues increased by 1.61% or \$341. State shared revenues decreased by \$9 from the prior year. This reduction resulted from the State actions in response to the economic slowdown experienced throughout the State of Michigan.

Fire Fund – The Fire Fund decreased its fund balance by \$7,869 which brings the fund balance to \$21,889. This balance is reserved and must be used for fire protection and fire equipment.

The Township levied a fire millage on the 2005 tax roll. This resulted in \$48,966 in tax related revenues during the current fiscal year.

Liquor Law Enforcement Fund – The Liquor Law Enforcement Fund's fund balance remained the same at zero. The Liquor license fees received from the State do not cover the entire expenditures from the Wexford

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2006

County Sheriff's Department, therefore, only the expenditures paid for by the revenue of this fund are recorded here. The balance is recorded in the General Fund.

Proprietary Fund The Township does not maintain any proprietary funds.

General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the local Township Board approve the original budget for the upcoming fiscal year prior to its starting on July 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the fiscal year on June 30.

Revenues, Change from Original to Final Budget:

| | <u>General Fund</u> | <u>Fire Fund</u> |
|---------------------------------------|------------------------------|-----------------------------|
| Revenues | | |
| Total Revenues Original Budget | \$ 47,743 | \$ 49,102 |
| Total Revenues Final Budget | <u>185,429</u> | <u>67,456</u> |
| Increase in Budgeted Expenditures | <u><u>\$ 137,686</u></u> | <u><u>\$ 18,354</u></u> |

Expenditures, Change from Original to Final Budget:

| | <u>General Fund</u> | <u>Fire Fund</u> |
|---------------------------------------|------------------------------|-----------------------------|
| Expenditures | | |
| Total Expenditures Original Budget | \$ 47,743 | \$ 49,102 |
| Total Expenditures Final Budget | <u>180,428</u> | <u>70,461</u> |
| Increase in Budgeted Expenditures | <u><u>\$ 132,685</u></u> | <u><u>\$ 21,359</u></u> |

The General Fund's increase in budgeted revenues and expenditures was mainly due to a federal grant used to purchase a fire truck that the township did not anticipate to receive when they adopted their original budget.

The Fire Fund's increase in budgeted revenues and expenditures was mainly due to additional revenues they expected to receive to purchase more fire equipment.

Capital Assets and Debt Administration

Capital Assets. The Township's investment in capital assets for governmental activities as of June 30, 2006 amounted to \$340,840 net of accumulated depreciation. The total increase in the Township's investment in capital assets net of accumulated depreciation for the current fiscal year was 259.45%.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED JUNE 30, 2006

Capital assets summarized below include any items purchased with a cost greater than \$300 individually (for purchases after June 30, 2003) and that have a useful life greater than one year. A summary of capital asset categories is illustrated below:

South Branch Township
Capital Assets as of June 30,

| | <u>2006</u> | <u>2005</u> |
|-------------------------------|--------------------------|-------------------------|
| Land | \$ 200 | \$ 200 |
| Buildings and Improvements | 30,626 | 29,063 |
| Equipment and Vehicles | 401,542 | 147,875 |
| | <u>432,368</u> | <u>177,138</u> |
| Less Accumulated Depreciation | <u>(91,528)</u> | <u>(82,314)</u> |
| Net Capital Assets | <u><u>\$ 340,840</u></u> | <u><u>\$ 94,824</u></u> |

Major capital asset events during the current fiscal year included the following:

- ◆ Purchased 2006 Spencer Pumper truck with FEMA grant revenue.
- ◆ Purchased 1989 GMC truck.
- ◆ Received two voting machines from the State of Michigan.

Long-Term Debt At the end of the current fiscal year, the Township had total installment debt outstanding of \$23,413. The entire balance of this debt is backed by the full faith and credit of the government. The lender also has a security interest in the tanker purchased with the note proceeds. Additional information on the Township's long-term debt can be found in the notes to the financial statements, such as a borrowing of \$10,000 during the year to help finance the local share of the FEMA grant received.

Economic Condition and Outlook

The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget means potential further reductions in state-shared revenues.

These factors were considered in preparing the Township's budgets for the 2006-07 fiscal year.

Request for Information

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have any questions about this report or need any additional information, contact South Branch Township at 10510 W. M-55, Cadillac, Michigan 49601.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

STATEMENT OF NET ASSETS
JUNE 30, 2006

| | <u>GOVERNMENTAL ACTIVITIES</u> |
|---|------------------------------------|
| <u>ASSETS</u> | |
| Cash | \$ 68,579 |
| Receivables | |
| Due from Other Governments | 75,261 |
| External Parties (Fiduciary Funds) | <u>1,157</u> |
| Total Current Assets | <u>144,997</u> |
| <u>CAPITAL ASSETS</u> | |
| Land | 200 |
| Buildings and Improvements | 30,626 |
| Equipment and Vehicles | <u>401,542</u> |
| | 432,368 |
| Less Accumulated Depreciation | <u>91,528</u> |
| Net Capital Assets | <u>340,840</u> |
| TOTAL ASSETS | <u><u>\$ 485,837</u></u> |
| <u>LIABILITIES</u> | |
| <u>CURRENT LIABILITIES</u> | |
| Accounts Payable | \$ 73,107 |
| Accrued Interest Payable | 486 |
| Current Portion of Long-Term Debt | <u>14,282</u> |
| Total Current Liabilities | <u>87,875</u> |
| <u>LONG-TERM LIABILITIES</u> | |
| Notes Payable | 23,413 |
| Less: Current Portion | <u>(14,282)</u> |
| Total Long-Term Liabilities | <u>9,131</u> |
| TOTAL LIABILITIES | <u>97,006</u> |
| <u>EQUITY</u> | |
| Net Assets: | |
| Invested in Capital Assets, Net of Related Debt | 317,427 |
| Restricted for Right-of-Way Maintenance | 6,398 |
| Restricted for Fire Protection | 21,889 |
| Unrestricted | <u>43,117</u> |
| TOTAL NET ASSETS | <u><u>\$ 388,831</u></u> |

The accompanying notes are an integral part of the financial statements.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

| FUNCTIONS/PROGRAMS | EXPENSES | PROGRAM REVENUES | | | NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS |
|---|-----------|-------------------------|--|--|--|
| | | CHARGES FOR SERVICES | OPERATING GRANTS AND CONTRIBUTIONS | CAPITAL GRANTS AND CONTRIBUTIONS | TOTAL |
| | | | | | GOVERNMENTAL ACTIVITIES |
| PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES | | | | | |
| Legislative | \$ 9,525 | \$ 0 | \$ 0 | \$ 0 | \$ (9,525) |
| General Government | 36,358 | 2,483 | 2,050 | 10,500 | (21,325) |
| Public Safety | 40,671 | 0 | 1,851 | 199,500 | 160,680 |
| Public Works | 1,955 | 0 | 0 | 0 | (1,955) |
| Other Functions | 3,192 | 0 | 0 | 0 | (3,192) |
| Interest on Long-Term Debt | 613 | 0 | 0 | 0 | (613) |
| Total | \$ 92,314 | \$ 2,483 | \$ 3,901 | \$ 210,000 | 124,070 |

GENERAL REVENUES

| | |
|----------------------------------|-------------------|
| Taxes | 70,569 |
| State Shared Revenue | 22,670 |
| Unrestricted Investment Earnings | 2,207 |
| Gain on Sale of Capital Assets | 3,800 |
| Other | 6,302 |
| Total General Revenues | <u>105,548</u> |
| Change in Net Assets | 229,618 |
| NET ASSETS - Beginning of Year | <u>159,213</u> |
| NET ASSETS - End of Year | <u>\$ 388,831</u> |

The accompanying notes are an integral part of the financial statements.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

GOVERNMENTAL FUNDS

BALANCE SHEET
JUNE 30, 2006

| | GENERAL FUND | FIRE FUND | LIQUOR LAW ENFORCEMENT FUND | TOTALS |
|---------------------------------------|-------------------|------------------|--------------------------------------|-------------------|
| <u>ASSETS</u> | | | | |
| Cash | \$ 39,007 | \$ 29,572 | \$ 0 | \$ 68,579 |
| Due from Other Funds | 2,222 | 0 | 0 | 2,222 |
| Due from Other Governments | 75,261 | 0 | 0 | 75,261 |
| TOTAL ASSETS | <u>\$ 116,490</u> | <u>\$ 29,572</u> | <u>\$ 0</u> | <u>\$ 146,062</u> |
| <u>LIABILITIES AND FUND BALANCE</u> | | | | |
| <u>LIABILITIES</u> | | | | |
| Accounts Payable | \$ 66,489 | \$ 6,618 | \$ 0 | \$ 73,107 |
| Due to Other Funds | 0 | 1,065 | 0 | 1,065 |
| Total Liabilities | <u>66,489</u> | <u>7,683</u> | <u>0</u> | <u>74,172</u> |
| <u>FUND BALANCE</u> | | | | |
| Reserved for: | | | | |
| Right-of-Way Maintenance | 6,398 | 0 | 0 | 6,398 |
| Fire Protection | 0 | 21,889 | 0 | 21,889 |
| Unreserved | | | | |
| Designated for | | | | |
| Community Building | 13,539 | 0 | 0 | 13,539 |
| Undesignated | 30,064 | 0 | 0 | 30,064 |
| Total Fund Balance | <u>50,001</u> | <u>21,889</u> | <u>0</u> | <u>71,890</u> |
| TOTAL LIABILITIES AND FUND BALANCE | <u>\$ 116,490</u> | <u>\$ 29,572</u> | <u>\$ 0</u> | <u>\$ 146,062</u> |

The accompanying notes are an integral part of the financial statements.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

| | |
|---|-----------|
| Total Fund Balance for Governmental Funds | \$ 71,890 |
|---|-----------|

Amounts Reported for Governmental Activities in the
Statement of Net Assets are Different Because:

Capital assets used in governmental activities are not
financial resources and therefore are not reported in the funds.

| | | |
|--------------------------|-----------------|---------|
| Land | 200 | |
| Buildings | 30,626 | |
| Equipment | 401,542 | |
| Accumulated Depreciation | <u>(91,528)</u> | 340,840 |

Long-term liabilities are not due and payable in the current period
and therefore are not reported in the funds.

| | | |
|--------------------------|--------------|-----------------|
| Notes Payable | (23,413) | |
| Accrued Interest Payable | <u>(486)</u> | <u>(23,899)</u> |

| | |
|---------------------------------------|-------------------|
| NET ASSETS OF GOVERNMENTAL ACTIVITIES | <u>\$ 388,831</u> |
|---------------------------------------|-------------------|

The accompanying notes are an integral part of the financial statements.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY

CADILLAC, MICHIGAN

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

YEAR ENDED JUNE 30, 2006

| | GENERAL FUND | FIRE FUND | LIQUOR LAW ENFORCEMENT FUND | TOTALS |
|--|-----------------|--------------|--------------------------------------|-----------|
| <u>REVENUES</u> | | | | |
| Taxes | \$ 21,603 | \$ 48,966 | \$ 0 | \$ 70,569 |
| Federal Grants | 199,500 | 0 | 0 | 199,500 |
| State Grants | 35,220 | 370 | 1,481 | 37,071 |
| Charges for Services | 2,383 | 0 | 0 | 2,383 |
| Interest and Rents | 2,224 | 83 | 0 | 2,307 |
| Other Revenues | 1,280 | 8,822 | 0 | 10,102 |
| Total Revenues | 262,210 | 58,241 | 1,481 | 321,932 |
| <u>EXPENDITURES</u> | | | | |
| Legislative | 10,022 | 0 | 0 | 10,022 |
| General Government | 47,615 | 0 | 0 | 47,615 |
| Public Safety | 200,924 | 72,528 | 1,481 | 274,933 |
| Public Works | 1,955 | 0 | 0 | 1,955 |
| Other Functions | 3,192 | 0 | 0 | 3,192 |
| Debt Service | 0 | 4,865 | 0 | 4,865 |
| Total Expenditures | 263,708 | 77,393 | 1,481 | 342,582 |
| Excess (Deficiency) of Revenues Over Expenditures | (1,498) | (19,152) | 0 | (20,650) |
| <u>OTHER FINANCING SOURCES (USES)</u> | | | | |
| Loan Proceeds | 0 | 10,000 | 0 | 10,000 |
| Transfer In | 0 | 1,283 | 0 | 1,283 |
| Transfer Out | (1,283) | 0 | 0 | (1,283) |
| Total Other Financing Sources (Uses) | (1,283) | 11,283 | 0 | 10,000 |
| Net Change in Fund Balance | (2,781) | (7,869) | 0 | (10,650) |
| <u>FUND BALANCE</u> - Beginning of Year | 52,782 | 29,758 | 0 | 82,540 |
| <u>FUND BALANCE</u> - End of Year | \$ 50,001 | \$ 21,889 | \$ 0 | \$ 71,890 |

The accompanying notes are an integral part of the financial statements.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2006

| | |
|---|-------------|
| Net change in Fund Balance - Total Governmental Funds | \$ (10,650) |
|---|-------------|

Amounts reported for governmental activities are different because:

Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.

| | |
|----------------------|----------|
| Depreciation Expense | (11,774) |
| Capital Outlay | 257,790 |

Accrued interest on notes payable is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid.

| | |
|--|-------|
| Accrued Interest Payable - Beginning of Year | 635 |
| Accrued Interest Payable - End of Year | (486) |

| | |
|--|----------|
| Loan proceeds provide current financial resources to governmental funds by issuing debt which increases long-term debt in the Statement of Net Assets. | (10,000) |
|--|----------|

Repayments of principal on long-term debt is an expenditure in the governmental fund, but not in the statement of activities (where it is a reduction of liabilities).

| | |
|--------------|--------------|
| Note Payable | <u>4,103</u> |
|--------------|--------------|

| | |
|---|--------------------------|
| CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES | <u><u>\$ 229,618</u></u> |
|---|--------------------------|

The accompanying notes are an integral part of the financial statements.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2006

| | <u>AGENCY FUNDS</u> |
|--------------------|-------------------------|
| <u>ASSETS</u> | |
| Cash | \$ 1,157 |
| <u>LIABILITIES</u> | |
| Due to Other Funds | \$ 1,157 |

The accompanying notes are an integral part of the financial statements.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

South Branch Township is a general law township located in Wexford County which operates under the direction of an elected township board. Under the criteria established by accounting principles generally accepted in the United States of America, the Township has determined that there are no component units which should be included in its reporting entity.

B. Government-wide and Fund Financial Statements

GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributors, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Township as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Township are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

South Branch Township reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Fire Fund* accounts for revenue sources that are legally restricted to expenditures for fire protection.

The *Liquor Law Enforcement Fund* accounts for revenue sources that are legally restricted to expenditures for liquor law enforcement.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

Additionally South Branch Township reports the following fund types:

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for assets that the Township holds for others in an agency capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions involved. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use the restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposits, and short-term investments with original maturities of three months or less from date of acquisition.

(I) The Township Board has authorized the Township Treasurer to invest in the following:

- (a) Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- (b) Certificates of deposit, savings accounts, deposit accounts, or depository of a financial institution with a location within the State of Michigan.
- (c) Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

- (d) Repurchase agreements consisting of instruments listed in subdivision (a).
- (e) Bankers' acceptances of United States banks.
- (f) Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than 1 standard rating service.
- (g) Mutual funds registered under the Investment Company Act of 1940, Title I of chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with authority to purchase only investment vehicles that are legal for direct investment by the Township Treasurer. This authorization is limited to securities whose intention is to maintain a net asset value of \$1.00 per share. (Recommendation--the above limitation is recommended, however, the Treasurer may also include mutual funds whose net asset value may fluctuate on a periodic basis by so stating in this area).
- (h) Investment pools organized under the Local Government Pool Act, 1985 PA 121, MCL 129.141 to 129.150.
- (i) Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, MCL 129.111 to 129.118.

2 *Receivables and Payables*

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable lien on the property as of the date they are levied. State education taxes, one-third of county taxes, and 50% of Cadillac Area Public School's taxes are levied and due July 1, and become delinquent after September 14. The remaining millages are levied and due December 1, and become delinquent after February 15. Collections of taxes and remittances of them are accounted for in the Current Tax Collection Fund. Township property tax revenues are recognized when they become both measurable and available for use to finance Township operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

The 2005 taxable valuation of South Branch Township totaled \$16,677,238, on which ad valorem taxes levied consisted of 0.8608 mills for South Branch Township operating purposes, 0.9705 mills for fire equipment, and 1.9410 mills for South Branch Township fire protection. These levies raised approximately \$14,478 for operating purposes, \$16,324 for fire equipment, and \$32,642 for fire protection.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

3. *Inventories and Prepaid Items*

Inventories are not significant and are expensed as acquired.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$300 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight line method over the following estimated useful lives:

| <u>ASSETS</u> | <u>YEARS</u> |
|------------------------------|--------------|
| Buildings | 50 |
| Building improvements | 20 |
| Public domain infrastructure | 20 |
| Vehicles | 10 |
| Equipment | 5-10 |

5. *Long-term Obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

6. *Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

7. *Use of Estimates*

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A public hearing is held to obtain taxpayer comments. Appropriations lapse at year end. Budgeted amounts presented are as originally adopted on June 23, 2005, or as amended by the Township Board from time to time throughout the year.

The appropriated budget is prepared by fund and activity. The Township Board exercises budgetary control over expenditures. The Township Board did not adopt a budget for the Liquor Law Enforcement Fund.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Township because it is not, at present, considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

B. Funds with Expenditures in Excess of Appropriations were as follows:

| | <u>APPROPRIATIONS</u> | <u>EXPENDITURES</u> |
|------------------------|-----------------------|---------------------|
| General Fund | | |
| Township Board | \$ 6,329 | \$ 10,022 |
| Election | 116 | 10,913 |
| Assessor | 9,460 | 9,560 |
| Board of Review | 557 | 558 |
| Building and Grounds | 4,387 | 5,846 |
| Fire Department | 133,699 | 199,500 |
| Liquor Law Enforcement | 0 | 1,424 |
| Employee Benefits | 1,792 | 1,812 |
| Special Revenue Fund | | |
| Fire Fund | | |
| Fire Department | 65,596 | 72,528 |

These overages were funded by greater than anticipated revenues and available fund balance.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The Township's deposits are all on deposit with Lake Osceola State Bank in Baldwin, Michigan.

Investment rate risk. The Township will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Township's cash requirement.

Foreign currency risk. The Township is not authorized to invest in investments, which have this type of risk.

Credit risk. The Township will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Township's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Township will do business in accordance with the Township's investment policy.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

Concentration of credit risk. The Township will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2006, none of the government's bank balance of \$70,545 was exposed to custodial credit risk because none of it was uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township's investments are categorized to give an indication of the level of risk assumed by the Township at year end. Category 1 includes investments that are insured or registered, or securities held by the Township or the Township's agent in the Township's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Township's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Township's name. At year end, the Township held no investments.

B. Receivables

Receivables as of year end for the government's individual major funds are as follows:

| | General | Fire | Liquor Law Enforcement | Total |
|----------------------------|-----------|------|------------------------------|-----------|
| Receivables | | | | |
| Due from Other Governments | \$ 75,261 | \$ 0 | \$ 0 | \$ 75,261 |

The allowance for doubtful accounts is not considered to be material for disclosure. As a result, its uncollectible accounts are virtually nil.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

No deferred revenue was recorded in any of the funds at the end of the current fiscal year.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

C. Capital Assets

Primary Government

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|------------------|-------------|-------------------|
| <u>Governmental activities</u> | | | | |
| Capital assets, not being depreciated | | | | |
| Land | \$ 200 | \$ 0 | \$ 0 | \$ 200 |
| Capital assets, being depreciated | | | | |
| Buildings and Improvements | 29,063 | 1,563 | 0 | 30,626 |
| Equipment and Vehicles | 147,875 | 256,227 | 2,560 | 401,542 |
| Total capital assets, being depreciated | 176,938 | 257,790 | 2,560 | 432,168 |
| Less accumulated depreciation for: | | | | |
| Buildings and Improvements | 21,000 | 403 | 0 | 21,403 |
| Equipment and Vehicles | 61,314 | 11,371 | 2,560 | 70,125 |
| Total accumulated depreciation | 82,314 | 11,774 | 2,560 | 91,528 |
| Total capital assets, being depreciated, net | 94,624 | 246,016 | 0 | 340,640 |
| Governmental activities capital assets, net | <u>\$ 94,824</u> | <u>\$246,016</u> | <u>\$ 0</u> | <u>\$340,840</u> |

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

| | |
|--------------------|------------------|
| General Government | \$ 806 |
| Public Safety | 10,968 |
| | <u>\$ 11,774</u> |

Construction Commitments:

The government has no outstanding construction commitments as of March 31, 2006.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

D. Interfund Receivables, Payables and Transfers

Individual fund interfund receivable and payable balances at June 30, 2006, were:

| <u>Fund</u> | <u>INTERFUND RECEIVABLES</u> | <u>INTERFUND PAYABLES</u> |
|-----------------------------|----------------------------------|-------------------------------|
| General Fund | \$ 2,222 | \$ 0 |
| Special Revenue Funds | | |
| Fire Fund | 0 | 1,065 |
| Fiduciary Funds | | |
| Current Tax Collection Fund | 0 | 1,157 |
| | <u>\$ 2,222</u> | <u>\$ 2,222</u> |

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All are expected to be resolved within one year.

Interfund Transfers as of June 30, 2006 were:

| | <u>TRANSFERS</u> | |
|---------------------------|------------------|-----------------|
| | <u>IN</u> | <u>OUT</u> |
| <u>Primary Government</u> | | |
| General Fund | \$ 0 | \$ 1,283 |
| Fire Fund | 1,283 | 0 |
| | <u>\$ 1,283</u> | <u>\$ 1,283</u> |

Transfers are used (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

E. Long-Term Debt

The following is a summary of the long-term debt transactions of the Township of South Branch for the year ended June 30, 2006:

| | NOTES PAYABLE |
|---|------------------|
| Long-Term Debt Payable At July 1, 2005 | \$ 17,516 |
| New Debt Incurred | 10,000 |
| Payments on Debt | <u>4,103</u> |
| LONG-TERM DEBT PAYABLE AT JUNE 30, 2006 | <u>\$ 23,413</u> |
| DUE WITHIN ONE YEAR | <u>\$ 14,282</u> |

Debt payable at June 30, 2006 consisted of the following:

Notes Payable:

| | |
|--|---------------|
| \$33,827 note payable, Due in Annual Installments of \$4,866 through August 31, 2008; interest at 4.35% | \$ 13,413 |
| \$10,000 note payable, Due in one Annual Installment on May 31, 2007; interest 4.5% | <u>10,000</u> |
| | <u>23,413</u> |

The annual requirements to amortize debt outstanding as of June 30, 2006 are as follows:

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Amounts Payable</u> |
|-----------------------------|------------------|-----------------|----------------------------|
| 2007 | \$ 14,282 | \$ 1,034 | \$ 15,316 |
| 2008 | 4,468 | 398 | 4,866 |
| 2009 | <u>4,663</u> | <u>203</u> | <u>4,866</u> |
| | <u>\$ 23,413</u> | <u>\$ 1,635</u> | <u>\$ 25,048</u> |

F. Fund Balance Reserves and Designations

In order to comply with generally accepted accounting principles and meet certain legal requirements, the Township has reserved fund balances in various funds. In addition, certain portions of unreserved fund balances have been designated for intended future uses. These reserves and designations are detailed in the following schedule:

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

FUND BALANCE/NET ASSETS

| | |
|--|-----------------------------|
| Reserved | |
| General Fund | |
| Right-of-Way | \$ 6,398 |
| Special Revenue Fund | |
| Fire Fund | |
| Fire Protection | 21,889 |
| Designated | |
| General Fund | |
| Community Building | <u>13,539</u> |
| TOTAL FUND BALANCE RESERVES AND DESIGNATIONS | <u><u>\$ 41,826</u></u> |

IV. OTHER INFORMATION

A. Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Township participates in a pool of municipalities within the State of Michigan for self-insuring property and casualty, crime, general liability, errors and omissions insurance and workers' compensation. The Township pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Township has not been informed of any special assessments being required for the current year or the three prior years.

The Township continues to carry insurance for other risks of loss, including fidelity bonds.

B. Jointly Governed Organization

South Branch Township and Henderson Township have entered into an agreement to create a joint cemetery board. The cemetery's board consists of the full board of both townships. The Township's share of the financial operations of the cemetery are recorded in the General Fund of South Branch Township. Both townships share in costs of operations as South Branch Township reimburses Henderson Township for the Township's share of the costs incurred.

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2006

| | <u>GENERAL FUND</u> | | | <u>FIRE FUND</u> | | |
|----------------------|----------------------------|-------------------------|---------------|----------------------------|-------------------------|---------------|
| | <u>ORIGINAL BUDGET</u> | <u>FINAL BUDGET</u> | <u>ACTUAL</u> | <u>ORIGINAL BUDGET</u> | <u>FINAL BUDGET</u> | <u>ACTUAL</u> |
| <u>REVENUES</u> | | | | | | |
| Taxes | \$ 21,161 | \$ 20,320 | \$ 21,603 | \$ 49,082 | \$ 50,247 | \$ 48,966 |
| Federal Grants | 0 | 133,699 | 199,500 | 0 | 0 | 0 |
| State Grants | 23,103 | 26,318 | 35,220 | 0 | 370 | 370 |
| Charges for Services | 2,455 | 2,383 | 2,383 | 0 | 0 | 0 |
| Interest and Rents | 1,024 | 1,901 | 2,224 | 20 | 39 | 83 |
| Other Revenues | 0 | 808 | 1,280 | 0 | 16,800 | 8,822 |
| Total Revenues | 47,743 | 185,429 | 262,210 | 49,102 | 67,456 | 58,241 |
| <u>EXPENDITURES</u> | | | | | | |
| Legislative | | | | | | |
| Township Board | 6,133 | 6,329 | 10,022 | 0 | 0 | 0 |
| General Government | | | | | | |
| Supervisor | 4,112 | 3,812 | 3,812 | 0 | 0 | 0 |
| Election | 800 | 116 | 10,913 | 0 | 0 | 0 |
| Assessor | 8,731 | 9,460 | 9,560 | 0 | 0 | 0 |
| Clerk | 4,412 | 4,257 | 4,257 | 0 | 0 | 0 |
| Board of Review | 1,000 | 557 | 558 | 0 | 0 | 0 |
| Treasurer | 9,562 | 8,491 | 8,491 | 0 | 0 | 0 |
| Building and Grounds | 3,000 | 4,387 | 5,846 | 0 | 0 | 0 |
| Cemetery | 3,516 | 4,193 | 4,178 | 0 | 0 | 0 |

| | | | | | | |
|---|--------|----------|-----------|--------|---------|-----------|
| Public Safety | | | | | | |
| Fire Department | 0 | 133,699 | 199,500 | 49,102 | 65,596 | 72,528 |
| Liquor Law Enforcement | 0 | 0 | 1,424 | 0 | 0 | 0 |
| Public Works | | | | | | |
| Sanitation | 1,562 | 1,955 | 1,955 | 0 | 0 | 0 |
| Other Functions | | | | | | |
| Insurance | 2,915 | 1,380 | 1,380 | 0 | 0 | 0 |
| Employee Benefits | 2,000 | 1,792 | 1,812 | | | |
| Debt Service | 0 | 0 | 0 | 0 | 4,865 | 4,865 |
| | | | | | | |
| Total Expenditures | 47,743 | 180,428 | 263,708 | 49,102 | 70,461 | 77,393 |
| | | | | | | |
| Excess (Deficiency) of Revenues | | | | | | |
| Over Expenditures | 0 | 5,001 | (1,498) | 0 | (3,005) | (19,152) |
| | | | | | | |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Loan Proceeds | 0 | 0 | 0 | 0 | 0 | 10,000 |
| Transfer In | 0 | 0 | 0 | 0 | 3,005 | 1,283 |
| Transfer Out | 0 | 0 | (1,283) | 0 | 0 | 0 |
| | | | | | | |
| Total Other Financing Sources (Uses) | 0 | 0 | (1,283) | 0 | 3,005 | 11,283 |
| | | | | | | |
| Net Change in Fund Balance | 0 | 5,001 | (2,781) | 0 | 0 | (7,869) |
| | | | | | | |
| <u>FUND BALANCE</u> - Beginning of Year | 0 | 0 | 52,782 | 0 | 0 | 29,758 |
| | | | | | | |
| <u>FUND BALANCE</u> - End of Year | \$ 0 | \$ 5,001 | \$ 50,001 | \$ 0 | \$ 0 | \$ 21,889 |

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

GENERAL FUND

BALANCE SHEET
JUNE 30, 2006

ASSETS

| | |
|----------------------------|------------------------------|
| Cash | \$ 39,007 |
| Due from Other Funds | 2,222 |
| Due from Other Governments | <u>75,261</u> |
| TOTAL ASSETS | <u><u>\$ 116,490</u></u> |

LIABILITIES AND FUND BALANCE

LIABILITIES

| | |
|------------------|------------------|
| Accounts Payable | <u>\$ 66,489</u> |
|------------------|------------------|

FUND BALANCE

| | |
|---------------------------------------|-------------------|
| Reserved for Right-of-Way Maintenance | 6,398 |
| Unreserved | |
| Designated for Community Building | 13,539 |
| Undesignated | <u>30,064</u> |
| Total Fund Balance | <u>50,001</u> |

| | |
|------------------------------------|--------------------------|
| TOTAL LIABILITIES AND FUND BALANCE | <u><u>\$ 116,490</u></u> |
|------------------------------------|--------------------------|

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY

CADILLAC, MICHIGAN

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2006

| | BUDGET | | ACTUAL |
|--|-----------|-----------|-----------|
| | ORIGINAL | FINAL | |
| <u>REVENUES</u> | | | |
| Taxes | \$ 21,161 | \$ 20,320 | \$ 21,603 |
| Federal Grants | 0 | 133,699 | 199,500 |
| State Grants | 23,103 | 26,318 | 35,220 |
| Charges for Services | 2,455 | 2,383 | 2,383 |
| Interest and Rents | 1,024 | 1,901 | 2,224 |
| Other Revenues | 0 | 808 | 1,280 |
| Total Revenues | 47,743 | 185,429 | 262,210 |
| <u>EXPENDITURES</u> | | | |
| Legislative | | | |
| Township Board | 6,133 | 6,329 | 10,022 |
| General Government | | | |
| Supervisor | 4,112 | 3,812 | 3,812 |
| Election | 800 | 116 | 10,913 |
| Assessor | 8,731 | 9,460 | 9,560 |
| Clerk | 4,412 | 4,257 | 4,257 |
| Board of Review | 1,000 | 557 | 558 |
| Treasurer | 9,562 | 8,491 | 8,491 |
| Building and Grounds | 3,000 | 4,387 | 5,846 |
| Cemetery | 3,516 | 4,193 | 4,178 |
| Public Safety | 0 | 133,699 | 200,924 |
| Public Works | 1,562 | 1,955 | 1,955 |
| Other Functions | 4,915 | 3,172 | 3,192 |
| Total Expenditures | 47,743 | 180,428 | 263,708 |
| Excess (Deficiency) of Revenues Over Expenditures | 0 | 5,001 | (1,498) |
| <u>OTHER FINANCING SOURCES (USES)</u> | | | |
| Transfer Out | 0 | 0 | (1,283) |
| Net Change in Fund Balance | 0 | 5,001 | (2,781) |
| <u>FUND BALANCE</u> - Beginning of Year | 0 | 0 | 52,782 |
| <u>FUND BALANCE</u> - End of Year | \$ 0 | \$ 5,001 | \$ 50,001 |

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

FIRE FUND

BALANCE SHEET
JUNE 30, 2006

ASSETS

| | |
|------|-----------|
| Cash | \$ 29,572 |
|------|-----------|

LIABILITIES AND FUND BALANCE

LIABILITIES

| | |
|--------------------|--------------|
| Accounts Payable | \$ 6,618 |
| Due to Other Funds | <u>1,065</u> |

| | |
|-------------------|--------------|
| Total Liabilities | <u>7,683</u> |
|-------------------|--------------|

FUND BALANCE

| | |
|------------------------------|---------------|
| Reserved for Fire Protection | <u>21,889</u> |
|------------------------------|---------------|

| | |
|------------------------------------|-------------------------|
| TOTAL LIABILITIES AND FUND BALANCE | <u><u>\$ 29,572</u></u> |
|------------------------------------|-------------------------|

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

FIRE FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2006

| | BUDGET | | ACTUAL |
|------------------------------------|-----------|-----------|-----------|
| | ORIGINAL | FINAL | |
| <u>REVENUES</u> | | | |
| Taxes | | | |
| Property Taxes | \$ 49,082 | \$ 50,247 | \$ 48,966 |
| State Grants | | | |
| Volunteer Fire Assistance Grant | 0 | 370 | 370 |
| Interest and Rents | | | |
| Interest Earnings | 20 | 39 | 83 |
| Other Revenues | | | |
| Sale of Assets | 0 | 3,800 | 3,800 |
| Contributions from Private Sources | 0 | 2,500 | 3,792 |
| Miscellaneous | 0 | 10,500 | 1,230 |
| Total Revenues | 49,102 | 67,456 | 58,241 |
| <u>EXPENDITURES</u> | | | |
| Public Safety | | | |
| Personal Services | | | |
| Salaries and Wages | 3,000 | 3,000 | 3,000 |
| Per Diem | 0 | 0 | 495 |
| Supplies | | | |
| Operating Supplies | 1,000 | 2,066 | 2,021 |
| Other Services and Charges | | | |
| Professional Services | 3,000 | 2,788 | 2,788 |
| Repair and Maintenance | 11,500 | 3,225 | 2,726 |
| Public Utilities | 4,000 | 3,404 | 3,507 |
| Travel and Education | 3,000 | 2,631 | 3,141 |
| Capital Outlay | | | |
| Fire Equipment | 16,372 | 41,243 | 47,381 |
| Other Functions | | | |
| Insurance | 7,000 | 7,239 | 7,239 |
| Employee Benefits | 230 | 0 | 230 |
| Debt Service | | | |
| Principal | 0 | 4,103 | 4,103 |
| Interest | 0 | 762 | 762 |
| Total Expenditures | 49,102 | 70,461 | 77,393 |

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

FIRE FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2006

| | BUDGET | | ACTUAL |
|--|----------|---------|-----------|
| | ORIGINAL | FINAL | |
| Excess (Deficiency) of Revenues Over Expenditures | 0 | (3,005) | (19,152) |
| <u>OTHER FINANCING SOURCES (USES)</u> | | | |
| Loan Proceeds | 0 | 0 | 10,000 |
| Transfers In | 0 | 3,005 | 1,283 |
| Total Other Financing Sources (Uses) | 0 | 3,005 | 11,283 |
| Net Change in Fund Balance | 0 | 0 | (7,869) |
| <u>FUND BALANCE</u> - Beginning of Year | 0 | 0 | 29,758 |
| <u>FUND BALANCE</u> - End of Year | \$ 0 | \$ 0 | \$ 21,889 |

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

LIQUOR LAW ENFORCEMENT FUND

BALANCE SHEET
JUNE 30, 2006

ASSETS

| | |
|------|------|
| Cash | \$ 0 |
|------|------|

LIABILITIES AND FUND BALANCE

| | |
|--------------------|------|
| <u>LIABILITIES</u> | \$ 0 |
|--------------------|------|

FUND BALANCE

| | |
|-------------------------------------|---|
| Reserved for Liquor Law Enforcement | 0 |
|-------------------------------------|---|

| | |
|------------------------------------|------|
| TOTAL LIABILITIES AND FUND BALANCE | \$ 0 |
|------------------------------------|------|

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

LIQUOR LAW ENFORCEMENT FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED JUNE 30, 2006

REVENUES

| | |
|-----------------|----------|
| State Grants | |
| Liquor Licenses | \$ 1,481 |

EXPENDITURES

| | |
|----------------------------|--------------|
| Public Safety | |
| Protective Inspection | |
| Other Services and Charges | |
| Contracted Services | <u>1,481</u> |

| | |
|---------------------------------|---|
| Excess (Deficiency) of Revenues | |
| Over Expenditures | 0 |

| | |
|---|----------|
| <u>FUND BALANCE</u> - Beginning of Year | <u>0</u> |
|---|----------|

| | |
|-----------------------------------|--------------------|
| <u>FUND BALANCE</u> - End of Year | <u><u>\$ 0</u></u> |
|-----------------------------------|--------------------|

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

CURRENT TAX COLLECTION FUND

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
YEAR ENDED JUNE 30, 2006

| | BALANCE | | | BALANCE | |
|--|----------|------------|------------|-----------|--|
| | 7/1/2005 | ADDITIONS | DEDUCTIONS | 6/30/2006 | |
| <u>CURRENT TAX COLLECTION FUND</u> | | | | | |
| <u>ASSETS</u> | | | | | |
| Cash | \$ 1,002 | \$ 629,088 | \$ 628,933 | \$ 1,157 | |
| <u>LIABILITIES</u> | | | | | |
| Due to Other Funds | \$ 1,002 | \$ 72,164 | \$ 72,009 | \$ 1,157 | |
| Due to Other Organizations and Individuals | 0 | 1,745 | 1,745 | 0 | |
| Due to Other Governments | 0 | 555,179 | 555,179 | 0 | |
| Total Liabilities | \$ 1,002 | \$ 629,088 | \$ 628,933 | \$ 1,157 | |

SOUTH BRANCH TOWNSHIP, WEXFORD COUNTY
CADILLAC, MICHIGAN

STATEMENT OF 2005 TAX ROLL
JUNE 30, 2006

TAXES ASSESSED

| | | | |
|------------------------------|----|----------------|---------|
| County | \$ | 170,416 | |
| County - State Education Tax | | 100,914 | |
| Township | | | |
| Operating | | 14,478 | |
| Fire Protection | | 32,642 | |
| Fire Equipment | | 16,324 | |
| Schools | | | |
| Cadillac Area Public Schools | | 252,993 | |
| Mesick Consolidated Schools | | 656 | |
| Intermediate School | | | |
| Wexford-Missaukee | | <u>100,264</u> | 688,687 |

TAXES COLLECTED

| | | | |
|------------------------------|--|---------------|---------|
| County | | 148,664 | |
| County - State Education Tax | | 93,473 | |
| Township | | | |
| Operating | | 12,408 | |
| Fire Protection | | 27,975 | |
| Fire Equipment | | 13,990 | |
| Schools | | | |
| Cadillac Area Public Schools | | 226,246 | |
| Mesick Consolidated Schools | | 656 | |
| Intermediate School | | | |
| Wexford-Missaukee | | <u>85,876</u> | 609,288 |

TAXES RETURNED DELINQUENT

| | | | |
|------------------------------|--|---------------|------------------|
| County | | 21,752 | |
| County - State Education Tax | | 7,441 | |
| Township | | | |
| Operating | | 2,070 | |
| Fire Protection | | 4,667 | |
| Fire Equipment | | 2,334 | |
| Schools | | | |
| Cadillac Area Public Schools | | 26,747 | |
| Mesick Consolidated Schools | | 0 | |
| Intermediate School | | | |
| Wexford-Missaukee | | <u>14,388</u> | <u>\$ 79,399</u> |

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

September 15, 2006

LETTER OF COMMENTS AND RECOMMENDATIONS

To the Township Board
South Branch Township
Wexford County
Cadillac, Michigan

During the course of our audit of the basic financial statements of South Branch Township for the year ended June 30, 2006, we noted the following:

Budgeting

The township had not formally adopted a separate budget for the Liquor Law Enforcement Fund. State law requires that this be done prior to expending any money in this fund.

Expenditures in various functions of the General Fund and Fire Fund, as well as the General Fund and Fire Fund as a whole, exceeded appropriations. The Township Board is also responsible for amending the budget during the year to allow for expenditures in excess of original appropriations, or to reduce appropriations, if it appears the actual expenditures will be much less than originally appropriated.

The adoption of the budgets for each fund should be clearly noted in the board minutes, as well as any amendments to the budget throughout the year.

This comment is a repeated comment from the previous year.

Reconciliations of Clerk and Treasurer Ledgers

We recommend that the Treasurer and Clerk reconcile their receipts, expenditures, and bank balances to each others records on a monthly basis. This will facilitate a continuous balancing of records and help strengthen internal controls. Currently, this is not being done as required by the Michigan Department of Treasury.

This comment is a repeated comment from the previous year.

Computerized Accounting

We commend the Township for utilizing a computerized accounting program for maintaining the Township's financial records. However, we do have some suggestions for increased efficiency and accuracy:

1. Currently, all funds are included in one company in the Peachtree accounting software. Care must be taken when recording transactions to insure posting across funds does not continue to occur.

2. Receipts should be entered via the cash receipts journal rather than a journal entry. More detailed information will be able to be entered which will allow increased tracking ability and usefulness of the general ledger.
3. Bank reconciliations can easily be done within the Peachtree accounting software. The general ledger bank balances did not match the hand ledgers done by the Treasurer.
4. Thorough and complete utilization of the computerized accounting program will assist the Township in providing a complete and accurate representation of the Township's financial position.

This comment is a repeated comment from the previous year.

We would like to thank the board for its confidence in our firm and to thank the township clerk and treasurer for their cooperation.

If you have any questions relative to the above items or other areas of your annual accounting, please feel free to call on us.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.

134 WEST HARRIS STREET
CADILLAC, MICHIGAN 49601
231-775-9789
FAX: 231-775-9749

M. WAYNE BEATTIE, C.P.A.
1902 - 1990

JOHN H. BISHOP, C.P.A.
ROBERT V. BEATTIE, C.P.A.
DOUGLAS P. McMULLEN, C.P.A.
JOHN F. TAYLOR, C.P.A.

JACK H. BAIRD, C.P.A.
JERRY L. COTTER, C.P.A.
DALE D. COTTER, C.P.A.

STEVEN C. ARENDS, C.P.A.
SCOTT A. HUNTER, C.P.A.
JONATHAN E. DAMHOF, C.P.A.
MICHAEL D. COOL, C.P.A.

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

September 15, 2006

LETTER OF REPORTABLE CONDITIONS

To the Township Board
South Branch Township
Wexford County
Cadillac, Michigan

In planning and performing our audit of the financial statements of South Branch Township, Wexford County, Cadillac, Michigan for the year ended June 30, 2006, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The relatively small number of people involved in the accounting functions of the Township and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the condition described above is a material weakness.

This report is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop, P.C.